

# State of the State 2012 Transcript – Delaware's Time to Lead

Lt. Governor Denn, President Pro Tem DeLuca, Speaker Gilligan, members of the 146th General Assembly, other elected officials, members of the Judiciary, members of the Cabinet, our employees, Carla and the people of Delaware.

In my previous reports on the State of the State, I spoke to you of turbulent seas and winter blizzards. These images captured the moment, as we fought through the worst economic downturn since the Great Depression.

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This economic storm posed particular challenges for Delaware industries upon which we had depended for decades, like financial services and automotive manufacturing, but it made

landfall in almost every corner of our nation. While Delaware was not alone in facing this storm, the way we responded was unique.

The politics of blame and division, the rhetoric of distrust, and the partisan warfare witnessed elsewhere never found a home in our state. Instead, we pulled together and prepared for the future. Leaning on Speaker Gilligan's forty years of experience, the leadership of both parties in this General Assembly worked with us and we made tough decisions to balance our budgets, while still making investments necessary to keep moving forward. We cut where it was possible and invested where it was important – to create jobs, improve schools, and build infrastructure.

At a moment when Washington, D.C. stands for deadlock and dysfunction, Delaware's strength resides in the capacity of its people, even in challenging times, to work with common purpose, to choose perseverance in place of pettiness and partisanship. As our economy recovers – albeit more slowly than any would like – we must resist the temptation to rest satisfied with the status quo. As Thomas Friedman and Michael Mandelbaum write in their book, *That Used to Be Us*, the best organizations “win in the turns.” When there are big shifts in the marketplace, when others are overwhelmed and in disarray, they put distance between themselves and their competitors. As tempting as it might seem to take this moment to pause and catch our breath, this is not the time to stand still. This is the time for Delaware to leap ahead, to lead.

### **Capitalizing on Our Economic Strengths**

The capacity to build on existing strengths and to adapt successfully to change is the quality that distinguishes companies that surge to the head of the pack from those that languish. Capitalizing on its strength in science and innovation, DuPont today is a bioscience company, not the same chemical company that it was 20 years ago, or the gunpowder

company it was 200 years ago. W.L. Gore, Ashland, AstraZeneca, ILC and our financial services companies have all evolved to keep up with changing markets and technologies. Consider Amazon, which is soon to be one of our larger employers. It has become an all-purpose online retailer by leveraging the distribution capability it originally developed to deliver books. Our employers are changing – capitalizing on their strengths and thinking about tomorrow. And to lead, to be the place where these companies grow – Delaware must be ready to do the same. We must be ready to “win in the turns.”

In Delaware, our economy directly benefits from our leading employers. Thanks to your financial support of the Strategic Fund, we have attracted and retained significant employers: PBF Energy, Sallie Mae, Baltimore Air Coil, Fisker Automotive, Miller Metal, Bloom Energy, Mountaire Farms and Capital One. We must continue these efforts, and remain nimble, opportunistic and aggressive when large employers present job opportunities. That is why I will again recommend significant funding for the Strategic Fund next year.

But to do more than just keep pace – to put distance between ourselves and our competitors – we must look beyond the direct benefits our larger employers provide; we must capitalize on their presence to build our competitive edge. We already have terrific small businesses but we aspire to see more created and to see them grow quickly. To accomplish that, we must nurture the small businesses and new companies that will thrive in the hospitable soil for job creation that our leading employers and our world-class workforce create around them.

Following up on the recent “Imagine Delaware” forum sponsored by the News Journal, we are finding new ways to support entrepreneurs. Over the last months, we studied best practices at entrepreneurial support centers around the country in places as far away as Silicon Valley and as nearby as the Science Center in Philadelphia, the CoinLoft in

Wilmington and the Tech Park in Newark. The best tend to have a few things in common – flexible incubator spaces, wraparound services like free or discounted legal and accounting assistance, educational opportunities for potential entrepreneurs and investors and outstanding opportunities for collaboration. Working with Representatives Lavelle and Bryon Short and groups like First State Innovation, we will apply what we have learned to further support emerging start-ups and growing companies in Delaware. Not every company that uses these resources will be successful and it will take those that succeed time to achieve results. Our goal, though, is not to capture a headline tomorrow; it is to facilitate the creation of jobs for a generation.

While nurturing the businesses of the future, we must also focus on growing our small businesses today. Small businesses need access to credit and we will utilize the federal Small Business Credit Initiative to help more creditworthy businesses get the loans they need to expand and create jobs. We are also pleased to be the first state to announce a partnership with Facebook. This partnership will help our small businesses fully engage the powerful use of social media to market their products and services more effectively.

We must put ourselves in the shoes of those who create jobs. We've got to understand the industries in our State better than any other state. And we've got to be more committed to the success of businesses in our state than any other state. We have most of the ingredients that businesses are looking for – good schools and institutions of higher education, reasonable taxes, a high-quality workforce, a wonderful quality of life, and a responsive government. Companies considering expansion or investment also value great infrastructure. Whether they are accessing just-in-time supplies, moving products to market, or transporting employees between home and office, we want them to know they'll find what they need in Seaford, not Shanghai, in Bear, not

Bangalore.

That is why last year we made the decision together to invest \$40 million to further support our roads and bridges and we created the Delaware Infrastructure Fund, which has already paid off with Amazon's decision to expand in Delaware. That is also why we invested \$10 million in the Port of Wilmington. In the coming months, we will consider opportunities for a public/private partnership to expand and modernize the Port, significantly increasing our capacity to handle global trade. Doing so will not only protect those jobs currently at the Port but will sow the seeds of future growth as we leap ahead of our competitors.

When companies decide whether to invest their next dollar in Delaware, it is not just the quality of our roads, bridges and port that they care about; they also want to know that our air and water are clean; that our communities offer the parks and recreational trails that make life for employees and their families healthy and rewarding. Talk with business leaders on a regular basis and it quickly becomes apparent. Quality of life matters deeply to them because it matters to their workforce. Overlook it, and your state is likely to get overlooked.

Our focus on quality of life is proving that economic development and environmental protection are compatible goals. This focus resulted in NRG transforming the Indian River power plant from one of the dirtiest coal-fired power plants in the country into one of the cleanest and is leading to the conversion of the Energy Center in Dover from coal to cleaner-burning natural gas – all the while creating hundreds of construction jobs in the process. Calpine has converted the Edge Moor plant in Wilmington from coal to natural gas. Taken together, these and other improvements are modernizing our energy fleet and reducing air pollution by 8,600 tons per year of nitrogen oxide and 33,000 tons per year of sulfur dioxide, which is the equivalent of taking 450,000 cars off

the road.

Our efforts to promote a high quality of life are not limited to reducing pollution from our power plants. We seek opportunities to connect Delawareans and visitors to all the history and natural beauty that the First State has to offer. Through an innovative public/private partnership, we are helping Yorklyn rebound from NVF's bankruptcy, transforming it into a revitalized area retaining its mill town roots. Our Bayshore Initiative is enhancing Delaware's spectacular coastal region and boosting the economy by restoring critical wildlife habitat and improving access for world-class hunting, fishing, kayaking and hiking.

But one of the best ways we can improve our quality of life, and promote healthy lifestyles at the same time, is to make our state more walkable and bikeable. In the next year, working with Representative Keeley and Senator Venables, we will launch the First State Trails and Pathways Plan. I am proposing that we dedicate \$13 million to build miles of new and enhanced trails throughout our State for every Delawarean to enjoy. Building on the strong foundation of existing trails and greenways already in place, we can make Delaware one of the most walkable and bikeable states in America.

Employers looking to create jobs also care about the availability and cost of electricity. That is why we reduced the utility tax last spring and why we provided incentives for businesses to invest in energy-saving technology. We need to continue to promote energy-saving investments but when I talk with business leaders about investing in Delaware; I sometimes hear concerns about municipal power rates and the lack of any choice and competition to hold down prices. Let me be clear. I have been approached by a number of businesses which, because they are located in the service area of a municipal power system, are required to procure their electricity from those municipalities at rates that are uncompetitive with those charged elsewhere in Delaware and – importantly –

uncompetitive with other parts of the country where they have similar facilities. I am sensitive to the revenue needs of our municipalities, but if these businesses leave our state, those jobs may well be lost forever. As expressed to me by Senator Simpson and Representative Dan Short, we need to work together to meet the expectations of companies choosing to do business here that the rates they will be charged for municipal power generation will be fair and competitive. I am ready to begin that conversation with our municipalities.

Creating jobs must remain our number one priority and this is particularly true when it comes to our returning veterans. I was privileged to visit recently with our troops in Kuwait and Afghanistan. We have with us today Sergeant Bruce Stevens of Dover and Senior Airman Jason Duricek of Wilmington, both of whom served admirably in Afghanistan. The first thanks we owe all of our veterans when they come home is the chance to partake in the abundance of opportunity that they make possible for the rest of us. Their mission puts them in harm's way, but their morale is high and their skills are exceptional. Let's work together to ensure they have the opportunity to put those skills to work when they come home.

We ensure that state employees who serve are able to return to their jobs. But we should be, and we are, going further. Thanks to the advocacy of Representative Jaques and others, we added representation of veteran-owned Delaware businesses to our Supplier Diversity Council, to ensure they have a fair opportunity to compete for state business. One of our biggest private-sector employers, JP Morgan Chase, is leading in this area, hiring thousands of returning veterans and providing incentives for its vendors to do the same. To encourage others in the private sector to follow their lead, we will propose expanding tax credits to Delaware businesses that hire veterans.

### **Creating the Workforce of Tomorrow**

The biggest driver for a business when deciding where to locate and expand is the quality of the workforce. That talent will determine whether the business becomes an innovation leader or gets left behind in the creative dust of its competitors. The late Steve Jobs put it bluntly: "Apple employs seven hundred thousand factory workers in China because it can't find the thirty thousand engineers in the U.S. that it needs on site at its plants." We need to do something about that. This is why, when the history of our time here is written, the determined push we are making to raise student achievement will prove to be the biggest game-changer of all.

Because we have come together – parents, teachers, administrators, private employers, foundations and public officials – to develop and implement a carefully crafted plan that aims high and puts children first, we have been recognized as a national leader in education, winning the nationwide Race to the Top competition. Together, we are making great strides. We have established high standards to ensure that we are being honest with our children about what they need to learn to succeed in the global economy. We have put in place an improved assessment system so parents and teachers can track student progress and identify quickly when students risk falling behind. We are supporting our teachers with resources that help them raise student achievement, and we are moving forward to evaluate our teachers in part on the basis of the progress their students make.

In today's global knowledge economy, those who are not pushing forward are falling behind. For Delaware to maintain its position of leadership, it is absolutely vital that we keep pressing ahead and I thank Senator Sokola and Representative Schooley for their leadership in this area. I realize there are those who are uncomfortable with the changes that are being made and that not all of these changes will work exactly as intended on day one. We will learn from our mistakes and



continue to maintain an open dialogue to improve. But even if you believe what we did in the past was sufficient for those times, it will not be sufficient going forward. Around the world, young people are working hard in schools that are dramatically improving and if we stop our own efforts now, it will be to the detriment of our kids and their future.

So pressing ahead means implementing without additional delay our Performance Appraisal System, with its focus on student progress. These implementation plans have benefited considerably from the advice of hundreds of Delaware teachers and we are grateful to them for their help. This is a challenging process and it is one that must succeed.

As a parent and as someone who has visited dozens of our State's schools, I want to ensure our changes help our children not only to score well on tests but also to develop a love for learning that will inspire their imaginations and creativity. This is a difficult balance, but one that is already being achieved in many classrooms throughout the State and one we should work together to expand. Because I have visited all of those schools and talked with principals, teachers, and other school staff, I know firsthand that there are truly great things going on in Delaware's classrooms. But we need to do a better job of getting the word out. Howard Weinberg of the Delaware State Education Association asked me to join with him and his association and the business community to let the people of our State know how many great things are going on in Delaware schools. It's an invitation I'm excited to accept.

Pressing ahead also means moving forward with our World Language Expansion Initiative. Our students need to master world languages to work with – and compete effectively against – workers around the world. We've already made completion of a world language a graduation requirement. Over the next five years, we're going to create partial immersion programs in twenty schools, where students will spend half the school day

learning in another language.

Finally, pressing ahead means acknowledging what research has clearly established – raising student achievement begins before children enter kindergarten. I've heard this message from hundreds of teachers – children receiving quality early care and education are more likely to be successful in school and in life. Investments that promise high yields get my attention and, in the realm of public policy, there is no higher-yield investment than this one. Last spring, we joined together to make some of the most significant investments in early childhood education in our State's history.

As it turns out, those investments are paying dividends sooner than we expected. The judges of the national Race to the Top Early Learning Challenge noted our commitment and rewarded us with significant additional federal funds. Here is our plan: (1) the professionals who care for our children will have the proper training; (2) the early childcare facilities where our children spend their days will have the best teaching and learning tools; and (3) the successes and challenges of centers will be closely monitored to ensure continual improvement. That is our formula for success and we expect to raise the percentage of high-need children in quality-rated programs from 20 percent to nearly 80 percent over the next four years. To let us know where our kids stand when they start school, we will introduce a new kindergarten assessment. I thank DSEA and our kindergarten teachers for their work with us on this initiative.

### **Governing Responsibly**

Companies that don't invest wisely wither away and perish. To succeed, we invest in our business-supporting infrastructure, our quality of life, our children, and our workforce. We will only be able to make these necessary investments, though, if we govern responsibly. This requires a state government that is innovative, efficient and transparent.

Governments that are open and transparent are more likely to manage taxpayer resources responsibly. That is why we launched the "I found it cheaper" website to make it easy for state employees to report when our contracts don't offer the best value to taxpayers. And that is why we are making it easier for all Delawareans to access information about their government. When citizens want information, they should get answers, not bureaucratic barriers. Thanks to legislation passed by this General Assembly and an executive order I signed a few months ago, "you've come to the wrong place" will no longer be an acceptable answer to requests for public records from the executive branch of government. I urge our counties, towns and school districts to join us in this commitment to transparency.

Thanks to the leadership of all four caucuses, the General Assembly has made significant progress over the last three years in making the legislative branch more transparent. Legislative committees are now subject to open meeting requirements and last year our budget was completed and posted on line well before June 30<sup>th</sup>. Transparency also needs to extend to the way lobbyists do business here at Legislative Hall, which is why my administration will team up with President Pro Tempore DeLuca and Speaker Gilligan, and Majority Leaders Blevins and Schwartzkopf to propose some common sense measures that we hope you will support.

Citizens deserve to know who is lobbying and what they are lobbying for. We will make it so with a new online reporting tool where citizens can see, by piece of legislation, which lobbyists are advocating for their clients. We have been successful in pulling together in tough times in no small part because of faith in the responsiveness of Delaware government. The trust of people in their state government should not be undermined by a perception that lobbyists have hidden access here in Dover.

Governing responsibly means governing efficiently. Working closely with the Joint Finance Committee under the leadership of Representative Williams and Senator McDowell, we eliminated more than a thousand positions in the executive branch, slashed our vehicle fleet, renegotiated our leased space to save millions, and stopped unnecessary printing. Last year, we confronted the unsustainable long-term costs associated with our state employee pension and health plans. The prospect of these looming costs gave rise to shrill rhetoric and pitched battles in other states. Here, we worked together – my administration, representatives from both parties in both chambers, the leadership of major public employee and public education unions – and we achieved results, a package of reforms that will save the taxpayers more than \$480 million over the next 15 years.

Our search for greater efficiency continues with an extensive examination of the criminal justice system. Under the leadership of Lt. Governor Denn and with the participation of Attorney General Biden, law enforcement and the judiciary, we are conducting a thorough review to figure out how we can get the most for the taxpayer dollars we spend on public safety. We look forward to receiving the recommendations of the Justice Reinvestment Initiative task force later this spring and to working with you to implement those reforms that can have the most positive impact.

One cost driver looms above all others and will swamp all the savings we achieve elsewhere if not addressed. That is the cost of health care. Last year we increased spending on Medicaid by \$56 million and my budget will recommend an additional \$21.7 million increase for next year. Over the last 10 years, this program alone has grown 127 percent, to the point where federal and state spending together exceeds \$1.2 billion each year. The total commitment of taxpayer dollars on health care is staggering. Yet the expectation is that year after year we will continue to pay more for health

care, whether we receive quality results or not.

The incentives we have in place in our health care system reward neither efficiency nor quality. These incentives encourage more services and tests, not better results. We have a system that doesn't encourage healthy behavior in patients and doesn't discourage unhealthy behavior. In essence, we don't have a health care system; we have a sick care system.

We are not going to solve the national health care debate here in Dover but we can reduce our costs and improve quality by focusing on how the State procures health care. The idea may sound far-fetched, but we have been quietly making progress. For example, we know seniors requiring long-term care often prefer to stay in their homes and that, so long as they get the care at home that they need, the results are often better and less costly. Starting April 1st, we will replace our traditional reliance on institutional care for seniors with a strong emphasis on community living. This will improve care and save money. I want to thank Secretary Landgraf and her staff for making progress on this important issue.

Our Housing Authority, Department of Health and Social Services, and Kids Department are using this same approach to improve the quality and reduce the cost of care we provide to those who have traditionally been cared for in our state hospital and to young people aging out of foster care – like Mindy and Matt Stevenson, who join us here today because when it comes to issues affecting teenagers aging out of foster care, we will make “no decisions about them without them.” These three agencies are partnering to provide housing and supportive wrap-around social services so these individuals achieve independence and we will propose to expand this initiative.

The use of technology in health care is critical to improved quality and reduce costs. When you go to the doctor or the

hospital in Delaware today, you may find your doctor can access recent lab work and pathology reports instantaneously. Soon your doctor may be able to pull up your prescriptions, x-rays and MRIs. This allows your doctor to make quicker and better medical judgments and makes it less likely that your doctor will order unnecessary tests. This use of information technology to provide better, less costly care is increasingly a reality.

A next step to leverage technology is to create a claims and cost database. Business leaders have come to understand the key to improving performance is harnessing the capacity of information technology to aggregate and analyze data. This database will allow us to figure out why some providers get better results and why some providers create more costs without better results to show for it. We will be in a position to reward what works and change what doesn't.

While this innovative technology is important, Delaware's biggest purchaser of health care, the State, needs to insist on incentives for providers that are aligned to improve quality and discourage waste. Taken together, our Medicaid population and our State employees and retirees represent nearly 40 percent of the health insurance market here, accounting for a total of \$1.7 billion of taxpayer expenditures. We look forward to working with the provider community to get these incentives right because the incentives at work today are the wrong ones. We are pleased that the Delaware Medical Society and Delaware Healthcare Association are already active on this issue and have agreed to work with us.

Providers are not the only ones who have roles to play here. Moving from a sick care system to a health care system requires the people that we insure to take responsibility for making healthy choices. We need to encourage them in these choices, for their own sake, and for the sake of all of us who end up absorbing higher health care costs in the form of

higher premiums and higher taxes. About two years ago, I created the Governor's Council on Health Promotion and Disease Prevention. They have done some terrific work, as has the Sussex Outdoors Initiative. Some of our institutions of higher education are also working to incent their employees to take better care of themselves. We will build on much of this work. And within state government, it's time to make all of our campuses, in their entirety, smoke-free. Otherwise, we are facilitating behavior that is not only harmful to those who engage in it, but that we know, with certainty, will heavily burden future generations of taxpayers.

Turning around this cost curve will not be easy and it will take time. But it is work to which we must commit – urgently and earnestly – if we are to put ourselves on a sustainable financial course and retain the freedom to invest in our children and our future.

### **Closing**

This is Delaware's time to lead. Creating more and better jobs. Improving our quality of life. Providing the best schools and learning opportunities for our children. Getting the most out of each tax dollar. Strengthening the trust of our people in their government. These are challenges even in ordinary times. We don't live in ordinary times.

Change and challenge accompany us each day. Allen's Family Foods is no longer selling chickens across our region. Now it is part of Harim, selling Delaware poultry into Korea and across Asia. On the former Chrysler site, Delawareans will be building Bloom energy servers to provide clean energy where they once built SUVs and tanks. We can shrink from these challenges, or we can do as a business destined for industry leadership would do and see in this moment an opportunity to change the game in our favor.

The economic ground is shifting under everyone's feet. Others

are finding it difficult to adapt. They are pointing fingers rather than pulling together. They are holding each other back rather than lifting each other up. Our history and our culture demonstrate that we do better than that in Delaware. But to take advantage of this moment and build a lasting competitive edge for our State and its people, we must do more than simply work with, rather than against, each other. Together, we must act with confidence and imagination.

We cannot settle for an economy that is dependent on a handful of major employers. We will nurture an environment where start-ups and small businesses can experiment and thrive.

We cannot settle for schools that are better-funded versions of the schools we remember from 20 years ago. We will help the schools that will prepare our children for the jobs 20 years from now.

We cannot settle for the sick care system we inherited from our parents. We will create a health care system that pays for performance and delivers quality care at a price that families and taxpayers can afford.

I thank each of you, the people of Delaware and the state employees who serve them, for your support over these past three difficult years.

Working together, we've kept Delaware moving forward. Now it is time that we forge ahead. With our own hard work as elected leaders, guided by sound judgment and God's blessings, we can secure a better future for our citizens. We can "win in the turns".

This is our time. To look ahead. To leap ahead. To lead.

Thank you.